

Agenda Item 10
DRAFT
Finance Options Report

Overview

- Objectives of the Report
- Participants, Process & Schedule
- Analysis used to Develop Options
- Findings
- Next Steps

The Challenge

Take a very **complex** topic with great **uncertainty** and high political **sensitivity**...

AND

Generate **options** that can provide information and guidance to decision-makers regarding **funding priorities**

Why Do a Finance Options Report?

- Status quo approach of relying on state funding unlikely in the future
- Existing funding gone after 2006-7
- Water user fee Budget Act requirement
- Benefits-based financing principle in ROD
- Coordinate financing among Program Elements

What this Report Does (and Doesn't Do)

It Does Not:

- Recommend finance formulas or allocations
- Optimize Program design
- Resolve short-term funding gaps
- Critique/Propose changes to historical pricing structures

What this Report Does (and Doesn't Do)

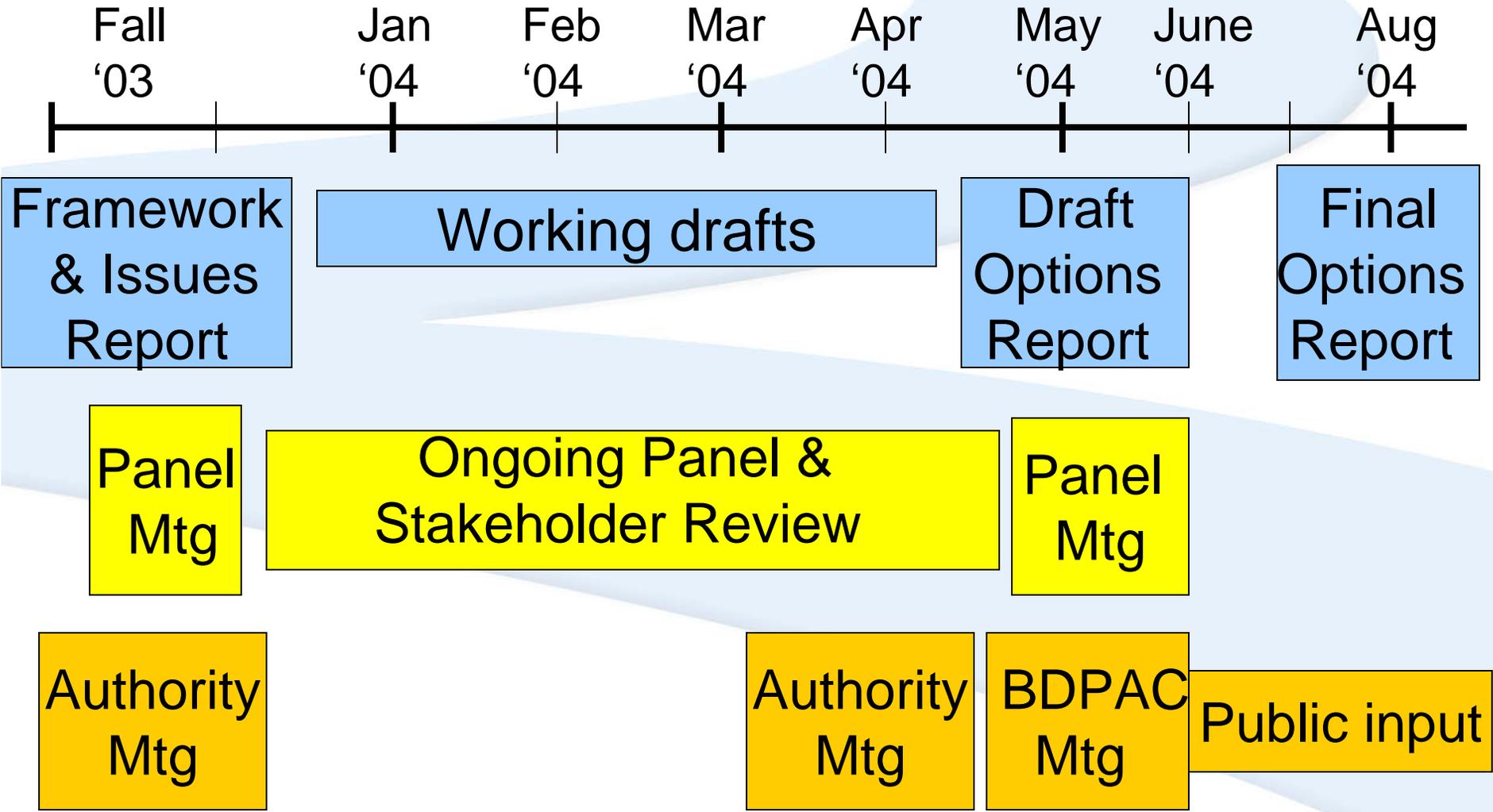
It Does:

- Build an understanding of Program costs and benefits
- Provide reasonable and instructive finance options
- Provides tools to assist decision-makers

Participants

- *Technical Team*
 - Consultants & BDA staff developed Finance Options Report
- *Ad Hoc work group*
 - 18+ member work group (stakeholders, legislative reps, & agency managers) reviewed report and served as sounding board for Technical Team and provided input to Panel
- *Independent Review Panel*
 - 8 member panel made up of academics and practitioners who are experts in public financing providing advice on finance analysis and reasonableness of finance options

Process & Schedule



Analysis Used to Develop Finance Options

1. What will it cost?
2. What are the benefits?
3. Who are the beneficiaries?
4. How should costs be allocated?
5. What are the finance tools?

What will it cost?

- Cost estimates for 2006-2030
- Relied on current program descriptions
- Excluded highly uncertain programs & projects
- Used example project for Surface Storage

What are the Benefits?

- Water supply (yield & reliability)
- Drinking Water Quality
- Ecosystem Improvement
- Flood Protection
- Hydropower
- Recreation

Who are the Beneficiaries?

Public: State & Federal Taxpayers

Water Users: Delta Exporters (SWP, CVP)

All other Bay-Delta System Diverters

Local: Local agencies, local landowners, local matching

Recreation: Fishing, boating

Commercial Fishing

Hydropower

How should costs be allocated?

Develop Allocation Examples

- Reasonable and instructive examples
- Follow benefits-based wherever possible
- Or use other allocation methods (Status quo, ROD, Divergent points of view)
- Ignore Incidental Beneficiaries

What are the Finance Tools

Finance Tools for the Public Share

- State General Obligation Bonds
- General Funds
- Federal appropriations

What are the Finance Tools

Finance Tools for the User Share

- Self Liquidating GO Bonds
- State Revenue Bonds
- SWP contractor charges
- CVP contractor charges
- JPA Revenue Bonds
- Local matching contributions
- New State Administered Fees

Key Findings

- Expected future costs
- Programs/projects we can apply a benefits–based allocation
- Priorities for public/user funding
- Potential impact on state, federal and user funding
- Programs that could broaden cost-sharing

Findings: Expected Costs

- Costs reflect a mix of funding sources
- Need to narrow cost range
- Estimate \$600 mill - \$1 bill/ year
- Local cost accounting remains a challenge

Findings: Expected Costs

Program Element	Ann. Avg (Mil.\$)		2006-2030 (Mil.\$)	
	Low	High	Low	High
Conveyance	21	36	525	900
Ecosystem Restoration	150	240	3,750	6,000
Environmental Water Account	30	30	750	750
Drinking Water Quality	21	56	525	1,400
Levees	41	74	1,025	1,850
Storage (only 1 surface project as example)	87	167	2,175	4,175
Watersheds	10	40	250	1,000
WUE (Mostly local; public \$40-\$50 Mil./yr)	170	380	4,250	9,500
Science	43	43	1,075	1,075
Oversight	10	10	250	250
Total	\$583	\$1,076	\$14,575	\$26,900

Findings: Expected Benefits

	Now	Likely - Near Term	Maybe-Long Term
Conveyance	X (Supply & DWQ)	X (Flood Protection)	X (Ecosystem)
ERP			X
EWA		X (Supply)	X (Ecosystem)
DWQ			X
Levees	X (Flood Protection)	X (Supply, DWQ, Recr)	
Storage		X (Supply, DWQ, Flood, Hydro, Recr)	X (Ecosystem)
Watersheds			X
WUE	X (Supply)		X (Ecosystem)

Findings: Benefits & Mitigation

- When benefits could not be quantified—
Example Allocations based on divergent points of view
- For ERP and other elements
 - Public pays allocation
 - Water User pays allocation

Findings: Expected Benefits

- Benefits-based analysis offers mixed potential
- Shortage of quantitative economic data
- Information can support broader group of beneficiaries than currently paying

Findings: Summary of Estimated Cost Allocations

Public Funding Emphasis

General Public 65%

Users 35%

Bay Delta User Emphasis

General Public 30%

Users 70%

Findings: Programs Suited to Water User fee

- Fee is best suited to programs with broader water user benefits & not able to identify individual beneficiaries
 - Ecosystem Restoration
 - Environmental Water Account
 - Drinking Water Quality
 - Delta Levees
 - Watershed

Estimated Cost Shares by Beneficiary Group
(\$ Million per Year)

Program Element	Taxpayer Shares		Bay-Delta Resource User Shares		Local Contributions
	State	Federal	CVP/SMP Charges	New State Fees ¹	
Storage	0 - 37	0 - 37	29 - 86	11 - 13	8 - 62
Conveyance	0 - 3	0 - 2	18 - 35	0 - 0	0 - 0
WUE	40 - 148	3 - 35	0 - 0	0 - 0	84 - 327
ERP	33 - 108	33 - 108	0 - 13	0 - 99	15 - 24
EWA	5 - 9	5 - 12	0 - 0	9 - 21	0 - 0
Levees	15 - 25	9 - 41	0 - 0	0 - 11	4 - 8
DWQ	1 - 7	1 - 7	0 - 40	0 - 6	12 - 42
Watersheds	3 - 18	3 - 18	0 - 0	0 - 8	1 - 8
O&C	3 - 9	2 - 2	0 - 6	0 - 0	0 - 0
Science	11 - 16	6 - 15	12 - 24	0 - 0	0 - 0
Total	\$111 - \$378	\$62 - \$276	\$59 - \$204	\$20 - \$158	\$124 - \$471

1. Includes \$11-\$13 million for recreational fees associated with a new surface storage project; \$0-\$3 million per year for boater fees associated with the Delta Levee Program; and the remaining fee amount is for a water user fee ranging from \$9-\$142 million per year.

New State Administered Fees

Fee versus Tax:

- Need a Nexus between level of benefits and amount paid in fees
- Each program in CALFED has different set of beneficiaries that would result in varying fee levels among water users

Possible Fee Options

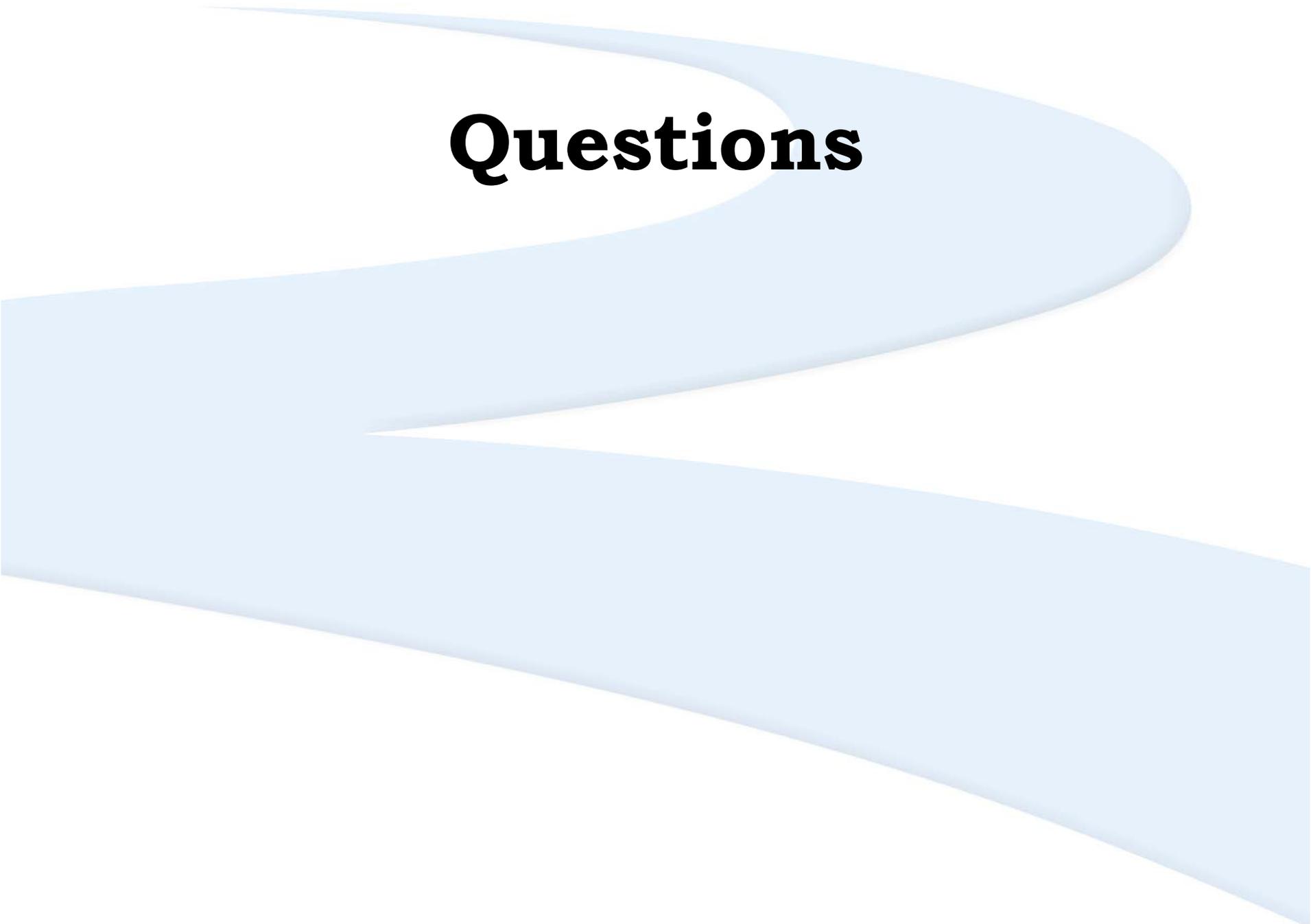
- Diversion Fee
- Retail Fee
- Residential or End User Fee
- Boater Fee

Next Steps

1. Identify where additional data to quantify benefits is needed and worth the investment
2. Revise cost estimates and allocations
3. Assist in optimizing investments

Next Steps

4. Develop accounting system to track benefits related to costs/investments
5. Identify local investments that contribute to CALFED objectives
6. As appropriate, develop finance recommendations



Questions